

Internal Revenue Service

P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

M = Employer Name

N = Division Name

P = Division Name

Q = Division Name

R = Division Name

S = Division Name

w = Number

x = Number

y dollars = Amount

z dollars = Amount

Dear :

You asked for advance approval of your employer-related scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding employer-related scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding employer-related scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures will not be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

Description of your request

You are operating an employer related scholarship program. You will award grants only to applicants intending to pursue or to continue to pursue a full-time course of study at an educational institution of higher learning that normally maintains a regular faculty and

curriculum and normally has a regularly enrolled body of students in attendance at the place where its educational activities are regularly carried on. The course of study must lead to credits toward a Bachelor of Arts degree (or its equivalent). No limitation is placed on the particular area of study pursued by a potential recipient of a grant, so long as it leads to such credits toward a degree for a qualified academic program.

Candidates for grants will be male and female high school seniors, college undergraduates or others who intend to begin or continue a qualified academic program and who meet (or have met) minimum standards for admission to an institution conducting such a program. Except for grant renewals, eligibility for a grant for a particular academic year will be limited to children (by birth or legal adoption) of a parent who has been employed on a full-time basis for at least one year (and continues on the relevant date to be so employed) by a department, division or direct or indirect subsidiary of M that your Board of Directors has specified to be included in the program at the time of the application for a grant. Currently, the departments, divisions and/or direct or indirect subsidiaries of M so included (Included Divisions) are N, P, Q, R, S and, to the extent not otherwise included therein, the shared services and corporate functions departments of M.)

In particular, children of such full-time employees of Included Divisions of M are eligible without regard to (i) the length of employment of the parent in excess of one year, or (ii) the position, services, or duties of the parent. Applicants are eligible without regard to sex, race, creed, color, national origin or sexual orientation. Individuals who are disqualified persons (within the meaning of section 4946 of the Internal Revenue Code of 1986 as amended (the Code)) with respect to you will not be eligible for grants.

An unsuccessful applicant for a grant may reapply in the following year so long as such individual would otherwise then be an eligible applicant.

A three-person selection committee chosen by you will choose recipients from the pool of applicants. Each of the three persons on the selection committee:

(1) will be knowledgeable in the education field and will have the background and knowledge to properly evaluate the potential of the applicants, (2) will not, and will never have been, associated (by employment or otherwise) with M (or any direct or indirect subsidiary), (3) will have no connection whatsoever with you except for his or her participation as a member of the selection committee, and (4) will not be in a position to derive (directly or indirectly) a private benefit if certain potential recipients are selected over others.

The selection committee will choose from among the eligible applicants based on the following criteria:

- (i) prior academic performance;
- (ii) performance on standardized examinations designed to measure ability and aptitude for higher education;

- (iii) recommendations from teachers or other individuals not related to the applicant (but in no event from employees of M(or any direct or indirect subsidiary) or other persons related to M(or to any direct or indirect subsidiary)); and
- (iv) conclusions as to motivation and character drawn from information on the application form about the applicant's extracurricular activities and employment experiences. The selection committee also may choose to require an interview of an applicant.

Each grant will be made directly to the educational institution attended by the recipient to defray expenses of tuition and academic fees of the qualified academic program. The purpose of the grant is to assist the recipient in obtaining an education in his individual capacity and solely for his personal benefit.

Your Board will determine the number of grants available for award each year and may limit the number available by Included Division. Commencing for the current academic year, w grants will be made available, of which x will be reserved for children of eligible employees of the R, x will be reserved for children of the remaining Included Divisions, and the balance will be awarded by the selection committee in its discretion to children of eligible employees in any of the Included Divisions.

Subject to the penultimate sentence of this paragraph, the basic amount of each grant will be 75% of the tuition and academic fees of the institution actually attended by the recipient during the academic years for which the grant is made and renewed. However, subject to the penultimate sentence of this paragraph, the amount of the grant will be 100% of such tuition and academic fees if the compensation paid to the employee-parent during the calendar year preceding the grant, as reflected on the parent's Form W-2, is less than a specified amount (currently y dollars), which may be changed by you each year in advance of the determinations of the selection committee. Notwithstanding the foregoing, you have established a maximum grant of z dollars per academic year for children of eligible employees of the R and such maximum amount, which the Board may in its discretion increase or decrease, shall also apply to all children of any eligible employee first employed by an Included Division (or any direct or indirect subsidiary). The Board will not decrease the maximum grant for a recipient after the grant has been awarded.

Each grant is made for the next succeeding academic year only. However, each grant may be renewed for any following year in which the recipient is enrolled in a qualified academic program. The renewal of a grant will depend only upon the maintenance of satisfactory academic performance by the recipient and will not depend on the continued employment of the recipient's parent by M (or any direct or indirect subsidiary) (or within an Included Division). Furthermore, the percentage, and any maximum dollar amount of a renewal grant will be the same as that of the original grant.

The number of original grants to be awarded each year will not exceed the greater of (i) 25% of the number of eligible applicants for grants and (ii) 10% of the number of eligible children of employees of the Included Divisions of M without regard to the number of

applications. (In any year in which you propose to rely on the 10% test in order to award a number of original grants greater than 25% of the number of eligible applicants, a survey will be conducted by M to determine the number of eligible children who evidence intention to enroll in a qualified academic program.) In applying these tests, renewals of grants awarded in prior years will not be considered in determining the maximum number of grants awarded in a current year. That is, the number of applicants for renewals of grants will not be included in either the numerator (number of grants awarded) or the denominator (number of eligible applicants) of the fraction used in determining satisfaction of the 25% or 10% tests. The selection committee may in its discretion reduce the number of grants awarded to a number less than the maximum as so computed.

The selection committee will forward its list of proposed recipients to you for verification of satisfaction of eligibility requirements. The grants will be awarded by you in the order recommended by the selection committee. Any public announcement of the grants will be made either by the selection committee or by you.

You will make payment of the grant directly to the educational institution attended by the recipient. The institution will be instructed to credit the payment against tuition and academic fees owing by the recipient only upon a determination that the recipient is enrolled as a full-time degree candidate in good standing at the institution.

You will arrange to receive at least annually a report of the recipient's courses taken (if any) and grades received (if any) in each academic period. In the case of a recipient who is in an academic program for which grades are not given, you will arrange to receive a brief progress report by a faculty advisor or other appropriate university official. Each recipient of a grant will be deemed to have waived any applicable privacy or other legal restriction on your ability to receive a report of the recipient's courses taken (if any), grades received (if any) or progress report and the recipient shall upon your request execute any documentation required to permit you such access.

A recipient will be requested to ask an appropriate university official to send the above-mentioned reports to you.

The reports described above will be reviewed by one of your officers and retained in your files. If such reports or other information indicates that a grant is not being used in furtherance of the educational purposes for which the grant is made, you will investigate, generally by contacting both the recipient and the educational institution involved.

While conducting your investigation, you will withhold further payments to the extent possible until you have determined that no part of the grant has been used for improper purposes and that it appears likely that no part of the grant will be so used in the future. If you determine that any part of the grant has been used for improper purposes, you (i) will take all reasonable and appropriate steps either to recover or to ensure the restoration of any improperly diverted funds; (ii) will withhold any further payments under such grant until you have received the recipient's assurances that future diversions will not occur,

and (iii) will require the recipient to take extraordinary precautions to prevent future diversions from occurring.

You will keep on file the following information:

- (i) all information secured by you or by the selection committee that is used in evaluating the qualification of potential recipients;
- (ii) identification of applicants (including any relationship of any applicant to you sufficient to make a determination as to whether the applicant is a "disqualified person" with respect to you for purposes of the Code);
- (iii) specification of the amount and purpose of each grant; and
- (iv) any follow-up information obtained by you about any recipient with respect to his or her continued eligibility to receive his or her grant and renewals thereof.

Additional characteristics of the scholarship program

1. The scholarship program will not be used by you or by M to recruit employees or to induce employees to continue their employment or otherwise to follow a course of action sought by M (or any direct or indirect subsidiary).
2. A grant will not be terminated because of the termination of employment of the recipient's parent with M (or of a direct or indirect subsidiary), regardless of the reason of such termination of employment.
3. At the time each grant is awarded or renewed, there will be no requirement, condition or suggestion, express or implied, that any recipient or parent is or will be expected to render future employment services for you or M (or any direct or indirect subsidiary), or be available for such future employment.
4. The terms of each grant will not include any commitments, understandings or obligations, conditional or unconditional, suggesting that the studies are undertaken by the recipients for the benefit of M (or any direct or indirect subsidiary) or you or have as their objective the accomplishment of any purpose of M (or any direct or indirect subsidiary) or you other than enabling the recipients to obtain an education in their individual capacities and solely for their personal benefit.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b) (1)(A)(ii).

Revenue Procedure 76-47, 1976-2 C.B. 670, provides guidelines to determine whether grants a private foundation makes under an employer-related program to employees or children of employees are scholarship or fellowship grants subject to the provisions of Code section 117(a). If the program satisfies the seven conditions in sections 4.01 through 4.07 of Revenue Procedure 76-47 and meets the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47, we will assume the grants are subject to the provisions of Code section 117(a).

You represented that your grant program will meet the requirements of either the 25 percent or 10 percent percentage test in Revenue Procedure 76-47. These tests require that:

- The number of grants awarded to employees' children in any year won't exceed 25 percent of the number of employees' children who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants, or
- The number of grants awarded to employees' children in any year won't exceed 10 percent of the number of employees' children who were eligible for grants (whether or not they submitted an application), or
- The number of grants awarded to employees in any year will not exceed 10 percent of the number of employees who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants.

You further represented that you will include only children who meet the eligibility standards described in Revenue Procedure 85-51, 1985-2 C.B. 717, when applying the 10 percent test applicable to employees' children.

In determining how many employee children are eligible for a scholarship under the 10 percent test, a private foundation may include only those children who submit a written statement or who meet the foundation's eligibility requirements. They must also satisfy certain enrollment conditions.

You represented that your procedures for awarding grants under this program will meet the requirements of Revenue Procedure 76-47. In particular:

- An independent selection committee whose members are separate from you, your creator, and the employer will select individual grant recipients.
- You will not use grants to recruit employees nor will you end a grant if the employee leaves the employer.
- You will not limit the recipient to a course of study that would particularly benefit you or the employer.

Other conditions that apply to this determination:

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures do not differ significantly from those described in your original request.

- This determination is in effect as long as your procedures comply with sections 4.01 through 4.07 of Revenue Procedure 76-47 and with either of the percentage tests of section 4.08. If you establish another program covering the same individuals, that program must also meet the percentage test.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at::

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements